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Management Control System and Organizational Performance of Cooperatives in Nepal

Prem Bahadur Singh, Ph.D. scholar
Faculty of Management, Far western University Nepal
ORCID ID: https://orcid.org/ 0009-0000-5613-3441
E-mail: prembahadursingh@fwu.edu.np

Abstract

The focus of this paper is on the impact of Management Control Systems (MCS) on cooperatives. MCS are constructed systems through which managers can design the use of operating activities and resources so that they can be aligned with implementing organizational strategies, and they require that people be responsible for using these resources. Democracy and Ownership Cooperatives, which seek to reconcile their democratic governance and ownership dimensions with economic sustainability, must therefore have effective means of assessing both sound business performance and member trust. A questionnaire based on the 'control' feature of MCS was used for measuring the feature and tested along 100 cooperatives managers using a structured tool which is also based on a questionnaire that applied 5-point Likert scale as an instrument in expressing their degree of agreement, with descriptive and analytical methods in dealing with the control features (internal audit, budgeting, flexible controls and reporting systems) of MCS. In conclusion, this study emphasizes the need for a well-designed and contextually appropriate Management Control System (MCS) in cooperative enterprises to address both economic and social goals. It is positively correlated with the level of enterprise operations and competition in that (1) the internal audit demand and budget design system should be easy to operate and flexible to promote formation. These actions do more than enforce financial discipline; they encourage flexibility and innovation in management.

Keywords: *Management Control Systems, Cooperative Performance, Budgeting, Internal Auditing.*

Introduction

MCS are controls established to influence the behavior of individuals and entities in an attempt to align their activities with the organization's goals and strategies. They help managers visualize, evaluate, and manipulate behavior to accomplish certain objectives (Anthony &Govindarajan, 2007). MCS includes budgeting, performance measures, reporting, and feedback mechanisms for coordinating, communicating direction, and controlling (Otley, 1999).Therefore, MCS is put in place to verify whether people's behaviors are actually reinforcing what the organization wants, so that alignment and efficiency will be achieved (Merchant & Van der Stede, 2017). In addition to financial considerations, MCS also considers other non-financial matters, such as customer satisfaction, staff commitment, and service quality (Chenhall, 2003). They operate contingently, depending on organizational and environmental conditions that require contingency design (Otley, 1999).

For cooperatives, MCS are important devices to reconcile the logic of profit with that of democracy. Mechanisms such as participatory budgeting, transparency and reporting, and feedback translate into accountability and inclusiveness, prevent fiscal profligacy, and advance long-term sustainability (Spear 2004; Birchall&Ketilson 2009).

The association between MCS and achievement has received considerable attention in the literature. When properly executed, MCS improve outcomes by specifying what is expected, economising on resources and strengthening responsibility (Simons,1995). They put strategic goals into practice by formulating tangible processes, allowing managers to monitor progress and take corrective action as necessary (Merchant & Van der Stede, 2017). Their effectiveness relies on their fit with the scale, form, and environment of an organization (Otley, 1999).

Participatory budgeting and transparency are shown to improve financial performance in cooperatives, as well as to lead to greater trust between members. By offering timely and accurate information, MCS assists in the early detection of problems and outcomes. According to existing research, companies with more effective MCS systems attain superior performance, especially in dynamic markets (Chenhall, 2003). These systems relate financial results to other non-financial measures, including quality, customer satisfaction, and employee

involvement, to achieve a balanced approach to performance assessment (Simons, 1995).

Following are the general objectives of this study.

- To analyze how MCS are applied in cooperative organizations.
- To identify the relationship between MCS and organizational performance.
- To examine how MCS contribute to improving the financial and social performance of cooperatives.

Additionally, this study provides the following significances.

- This study provides a clear understanding of the role of effective MCS in cooperative organizations.
- The findings can serve as guidance for cooperative managers seeking to improve their organizational performance.
- The study offers valuable insights to policymakers for formulating supportive policies for the cooperative sector.
- It contributes to promoting transparency, accountability, and member satisfaction in cooperatives.
- The study helps enhance the sustainability and competitiveness of cooperative organizations.

Literature Review

i. Contingency Theory

According to Contingency Theory , there is no one best way to control all organizations. Instead, management tools such as MCS need to be appropriate for the environment and context in which an organization is positioned in order to work. This implies that some control systems must be tailored to the specificities of cooperatives, i.e., their highly participative nature.

ii. Agency Theory

Jensen and Meckling (1976) developed Agency Theory to describe the relationship between principals and agents, which can lead to conflicting interests as one party's interests diverge from the other's. In a cooperative, the entity is owned by its members, but the co-op then hires some managers to oversee day-to-day business. The characteristics of the identified MCS were, in line with our aims for this study, Agency.

iii. Stakeholder Theory

Stakeholder Theory, as established by Freeman (1984), is based on the premise that firms must consider the concerns of all stakeholders rather than solely focusing on profits. A cooperative would also have members (who are the equivalent of shareholders and owners), founding members (those who open accounts), and patrons, such as staff or the community in which it operates.This explanation further assists in underpinning the objective by explaining how MCS enables cooperatives to reconcile and balance varying stakeholder interests, which impacts their sustainable performance.

iv. Resource-Based View (RBV)

According to the Resource-Based View (Barney, 1991), a firm's success lies in itsability to employ resources that are valuable, rare, and difficult for other companies to imitate. Cooperatives possess internal resources such as member loyalty, community trust, and equitable information. This is related to the objective of this study, which demonstrates that MCS helps cooperatives effectively exploit internal resources and translate them into performance that drives competitive advantage.

v. Goal-Setting Theory

Goal-Setting Theory, formulated by Locke and Latham (1990), suggests that people tend to perform better when they have specific, measurable, and difficult tasks because these provoke greater effort from employees. MCS in cooperatives is particularly important for defining targets, evaluating performance, and providing feedback to members/functionaries. This theory also contributes to the goal by showing how effective goal-setting and performance monitoring can increase cooperative behavior and performance.

Conceptual framework

i. Management Control Systems (MCS)

Management Control Systems (MCS) are designed systems that influence and control the actions of people in order to implement strategies. They are used for the efficient operation of resources by cooperatives and for members to verify that the cooperative aligns with their values. Instruments such as MCS facilitate preparation, reporting, decision-making, and organizational control of planning

procedures; they increase the generation of insights to serve and the discretion in decision-making (Anthony &Govindarajan, 2007).

ii. Organizational Performance

Organizational performance indicates the degree to which cooperatives perform their functions well and includes both financial and broader social impacts, such as member satisfaction and communal benefit (Kaplan & Norton, 1996). In this model, it is considered the dependent variable, depending on how well Management Control Systems (MCS) are designed and enforced. Cooperatives' performance has multiple dimensions: profit, service delivery, and social impact.

iii. Agency Relationships

The principal-agent theory is concerned with the relationship between cooperatives (principals) and managers (agents). The principle of One Member = One Vote in cooperatives is another source of agency problems because it makes the alignment between owners and managers even more difficult. These conflicts are mitigated by Management Control Systems (MCSs), which form monitoring systems, accountability mechanisms, and control devices that help reconcile managerial behavior with members' interests (Jensen &Meckling, 1976).

iv. Stakeholder Interests

Co-ops serve a variety of needs among members, employees, and the community. Quality is a matter of balance among these interests. MCS helps co-operatives align expectations between stakeholders by creating transparency, participation, and feedback mechanisms (Freeman, 1984). The model focuses on stakeholder expectations as key influences on performance and the use of MCS to reconcile conflicting interests based on principled procedures

v. Goal Setting and Performance Monitoring

Co-operatives cannot succeed without goals and measurable performance. MCS facilitates this process, as it establishes goals (if nothing else, then to perform at some minimal level compared with the social group), monitors progress, and perhaps receives feedback from others to judge how well they are performing on the tasks demanded. This model highlights how MCS helps cooperatives use discipline to stay on course, to be accountable, and to adhere to

their mission and values. Cooperatives can be effective and efficient in their operations and activities if they have a formal plan of action that is checked or reviewed at regular intervals.

Empirical Review

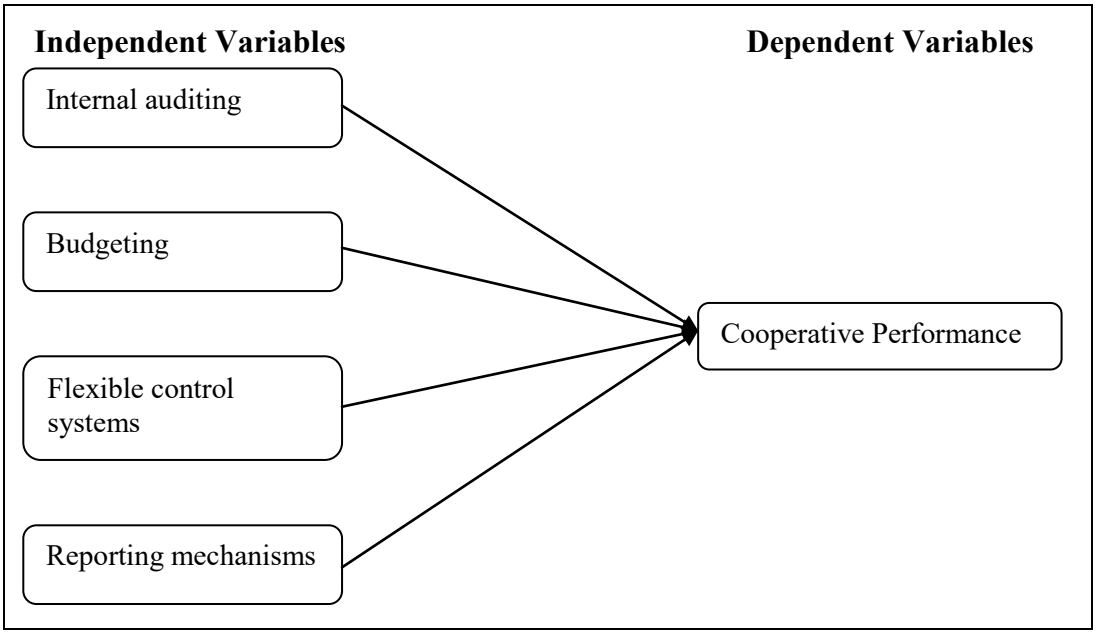
Strategic planning, internal audit, and budgeting were found to have a positive significant effect on the performance of cooperative businesses in Nepal, but the effect of budgeting was the least significant . For instance, Koirala (2025) found that Latin American cooperatives' modernized MCS promotes sustainability and competitiveness. Rana et al. Member attitudes and performance outcomes due to MCS that promote knowledge diffusion in the form of innovation. More adaptive MCS increased flexibility and decision resilience under uncertain conditions. K. Sharma (2024) stated that formal budgeting and audits enhanced effectiveness and trust in agricultural cooperatives. Gurung (2024) stressed that integrated MCS facilitated South Asian cooperatives in responding to market and member needs. Poudel et al. (2024) revealed that the possession of knowledge-sharing MCS led worker cooperatives to more innovation and competitiveness. It is found that flexible MCS systems in small cooperatives increased their ability to be responsive to external challenges, which helped them continue functioning and serve member needs.

Formal MCS associated with better financial performance and trust among the members in Nepalese cooperatives through increased governance and accountability. Posed Bounded MCS proved advantageous for South Asian cooperatives in serving their financial and social goals (supporting flexibility as well as resource use) – Kandel (2021). Dhakal et al. (2021) emphasized that innovation-driven MCS can lead to a competitive advantage through better decision-making and learning. Some study have placed a great deal of focus on the ability of agile MCS to help build resilience to economic fluctuations and provide stability in developments. Kunwar (2022) found that formal MCS in Nepalese FC made the level of transparency, trust, and ease accessible to all members. Value-added MSC plays a significant role in strengthening governance and enabling cooperatives to achieve their economic functioning with social effectiveness (Acharya, 2022). It is noted that innovation and competition between individuals are generated as a result of transferring knowledge through

MCS. Bista et al. (2022) highlighted the role dynamic MCS plays in ensuring competitiveness and continuity under economic uncertainty.

MCS can potentially lead to better financial performance, transparency, and trust in Nepalese cooperatives due to effective management. MCSEI is also critical in decision-making and sustainability in South Asia (Ghimire, 2020). It is found that MCS are positively associated with innovation and competitive knowledge sharing in workers' cooperatives. It also reported that resilient coping and adaptive MCS can strengthen resilience and may assist in the preservation of operational sustainability during economic turmoil.

Conceptual framework



Research Methodology

This study is novel in its methodological approach and focuses on the influence of MCS on CP through research design. The paper below centers on the effects of management control systems on cooperative performance. The study compares cooperatives from different districts and involves 100 cooperator respondents for fair representation. Primary data will be obtained through a well-structured questionnaire using a 5-point Likert scale to gauge respondents' agreement with various statements. Additionally, secondary data were derived from annual reports and related journals.

This proxy of MCS is observed as an action in all domains that enhance or hinder actual performance, which is made up of autonomous sub-systems such as budgeting, reporting, and monitoring. This is subject to the efficiency of these activities (Otley 1980; Simons 1997). Previous works model that there is a one-way link from and to only one variable, namely MCS (without control variables in place).Descriptive statistics will summarize responses,Covariance and Pearson's correlation will estimate associations, and regression analysis was assess the effects of predictors. Reliability and internal consistency were determined using Cronbach's alpha. This methodology constitutes a good starting point for studying the impact of MCS on cooperative performance.

Results and Discussion

Results

Table 1

Internal Auditing

Statement	Mean	Std. Deviation
Q1: Our cooperative frequently performs internal audits.	3.00	1.393
Q2: Internal audit outcomes support managerial decisions.	3.07	1.387
Q3: The audit process helps quickly detect financial issues.	2.73	1.441
Q4: Auditors maintain independence and fairness.	2.91	1.505
Q5: Audit reports are communicated clearly to leadership.	3.15	1.388

(Source: Filed survey Report,2025)

Table 1, there is moderate consensus among respondents on the extent of the internal auditing process at the cooperative, indicating that although reports were clearly communicated to leadership, there are reservations about the audit's capacity to promptly detect financial problems. More generally, these results imply that the contribution of internal auditing (IA) to managerial decision-making is evident, but its involvement may need to be increased to identify financial risks and improve governance and control in the cooperative.

Table 2

Budgeting

Statement	Mean	Std. Deviation
Q1: The cooperative prepares budgets before major activities.	2.95	1.445
Q2: Budgeting improves how we distribute resources.	2.95	1.513
Q3: Budgets are periodically reviewed and updated.	3.22	1.433
Q4: Managers adhere strictly to budget limits.	3.07	1.365
Q5: Budgeting helps achieve financial objectives.	2.98	1.449

(Source: filed survey Report,2025, N=100)

Table 2 indicates that Bermuda budgeting perceptions in the cooperative are moderate. The highest consensus was noted on regular budget reviews and updates (mean 3.22) compared to sections such as budget request formulation and allocation of resources (mean 2.95).

Table 3

Flexible Control Systems

Statement	Mean	Std. Deviation
Q1: Our cooperative modifies controls when circumstances change.	2.77	1.355
Q2: Managers adjust plans in response to unexpected events.	3.18	1.395
Q3: Flexibility is an essential part of our management culture.	2.92	1.412
Q4: Our control systems enable quick reactions to challenges.	3.13	1.454
Q5: Flexibility helps maintain consistent performance during uncertainty.	2.88	1.585

(Source: filed survey Report,2025)

Table 3 presents responses to the statements about the flexible management system within the cooperative, indicating moderate agreement on average. The largest mean (3.18) suggests that plans are likely to be revised when events take an unexpected turn. In contrast, controls in the industry have been less subject to change in response to new or unforeseen conditions, as indicated by the smallest mean score (2.77). Other statements, including 'flexibility in management culture' and 'contributes to stable performance,' were moderately rated.

Table 4

Reporting Mechanisms

Statement	Mean	Std. Deviation
Q1: The cooperative produces timely and precise reports.	3.15	1.351
Q2: Reports are openly shared with key stakeholders.	2.90	1.389
Q3: Reports offer useful information for decisions.	3.05	1.395
Q4: Reporting supports openness within the organization.	3.10	1.432
Q5: Management relies on reports to guide decisions.	2.97	1.466

(Source: filed survey Report,2025, N=100)

Table 4 shows that there was moderate agreement among the respondents regarding reporting procedures in the cooperative. The mean of 3.15 represents satisfactory NBS results in terms of timeliness and accuracy, while the low result (mean of 2.90) indicates that there is little openness to sharing reports with

stakeholders. Some aspects, such as decision-making based on reports and organizational transparency, were perceived moderately.

Table 5

Cooperative Performance

Statement	Mean	Std. Deviation
Q1: The cooperative has achieved strong financial results.	3.10	1.360
Q2: Members are generally satisfied with the cooperative.	3.09	1.296
Q3: The cooperative's operations have become more efficient.	2.92	1.440
Q4: The cooperative's position in the market has improved.	2.89	1.530
Q5: The cooperative's membership and income have steadily grown.	2.88	1.430

(Source: filed survey Report,2025)

Table 5 shows moderate perceptions of cooperative performance. Higher ratings were given for financial performance (mean 3.10) and member satisfaction (mean 3.09); while lower scores were awarded for efficiency (2.92), market position (2.89) and growth (2.88), corresponding to a mixed picture and room for improvement of these concepts.

Correlation Analysis

Table 6

Correlation Analysis

Variables	AI	BUD	FCS	RM	CP
AI	1				
BUD	0.027	1			
FCS	-0.137	0.101	1		
RM	-0.038	0.280**	0.211*	1	
CP	0.283**	0.550**	0.456**	0.559**	1

(Source: filed survey Report,2025, N=100)

It can be observed from the table that cooperative performance (CP) has a significantly positive relationship with all of the management control variables, particularly reporting mechanisms (r = 0.559) and budgeting (r = 0.550). This indicates that more effective budgeting, reporting, auditing, and flexible controls contribute to better performance. Other associations between variables were weak, with either small or limited connections.

Table 7

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of Estimate	Sig. F Change
1	0.837	0.700	0.688	0.2107	< 0.001

(Source: filed survey Report,2025, N=100)
Predictors: RM, IA, FCS, BUD
Dependent Variable: Cooperative Performance CP

The regression model explains 70% of the variance in Cooperative Performance (CP) and also has a linearly dependent positive relationship between the predictors (RM, IA, FCS, BUD) and CP. The model was statistically significant ($p < 0.001$), suggesting that the predictors were meaningful in explaining CP, and it provided acceptable prediction (standard error = 0.2107%).

ANOVA

Table 8

ANOVA Summary

Source	Sum of Squares	df	Mean Square	F	Sig.
Regression	9.857	4	2.464	55.526	< 0.001
Residual	4.216	95	0.044		
Total	14.074	99			

(Source: filed survey Report, 2025, N=100)
Dependent Variable: CP
Predictors: RM,IA, FCS, BUD

The ANOVA table indicates that the regression equation is highly significant ($p < 0.001$), and the independent variables account for a significant amount of variance in Cooperative Performance (CP). The value of F is 55.526, implying that the model fits the data very well, since the amount of variance explained by the predictors (2.464) is substantially larger than the amount that remains unexplained (0.044).

Table 9

Coefficients

Variable	B	Std. Error	Beta	t	Sig.
Constant	0.238	0.197	—	1.212	0.228
IA	0.230	0.039	0.339	5.967	< 0.001
BUD	0.212	0.031	0.396	6.748	< 0.001
FCS	0.226	0.034	0.382	6.579	< 0.001
RM	0.254	0.040	0.381	6.388	< 0.001

(Source: filed survey Report,2025)
Dependent Variable: CP (Cooperative Performance)

The table shows the coefficients and how each independent variable (IA, BUD, FCS, RM) is related to CP. All predictors were statistically significant ($p < 0.001$), with BUD displaying the strongest positive effects (Beta = 0.396), followed by FCS (Beta = 0.382) and RM (Beta = 0.381). The constant itself was not significant ($p = 0.228$), indicating that it did not contribute significantly to CP after controlling for the predictors. All predictors had a positive influence on CP, indicating that larger values were always better for the resulting CP.

Discussion

i. Internal auditing: The sub-dimension of internal auditing was perceived at moderate levels, as shown by an average of 3.00 for audit frequency and 3.15 for clear communication of audit reports received (Messier & Hansen, 2009). i. The effectiveness of audits in identifying financial problems was rated the lowest (mean 2.73).

ii. Financial budgeting habits are moderately believed to be important (average of 3.22 for regular review and updating of expenses). Resource distribution and budget preparation received a lower evaluation, with an average of 2.95 indicating a somewhat unsatisfactory index.

iii. Managers' reactions during unexpected events to control systems are somewhat valued (mean = 3.18). In contrast, adapting controls to changes in circumstances ranked poorly (mean 2.77), indicating poor flexibility.

iv. Fairness of reporting (timeliness, correctness) (average 3.15). There was somewhat less openness in reporting (mean 2.90) when sharing reports with stakeholders, which suggests that there may be some aspects that can be further improved.

v. Financial results and member satisfaction (mean 3.10) were scored higher; the scores for operational efficiency, market position, and growth, however, were lower (mean 2.88-2.92), indicating that there is potential for improvement in these areas as well.

vi. The association between CP and management control variables (reporting mechanisms $r = 0.559$; budgeting $r = 0.550$) is significant, which means that reporting mechanisms and budgeting have a considerable relationship in influencing the use of CP. vii. $R^2 = 0.700$, which means that the model explains 70 percent of the variance in CP. The model was statistically significant ($p < 0.001$), and with a standard error of 0.2107, it had a fairly good prediction accuracy as follows:

vii. The regression model was significant ($p < 0.001$). The F statistic (55.526) also indicates that the model fits the data well because the variance explained by the predictors (2.464) is much greater than the

unexplained variance (0.044). ix. All predictors were significant ($p < 0.001$). BUD has the most conspicuous influence on CP (Beta = 0.396), followed by FCS (Beta = 0.382) and RM (Beta = 0.381), indicating that these three variables are positively correlated with performance.

viii. The study also implies that internal audit, budgeting, flexible control, and reporting are significantly related to enhancing performance of cooperative societies. Nevertheless, some transformation is necessary for the purpose of greater efficiency and competitiveness in certain industries.

These results are similar to other research into the consequences of MCS for cooperatives. Sharma (2025) and Thapa et al., (2024) emphasize that internal control, budget and flexible control systems are major elements in improving the effectiveness of operational management and member satisfaction in co-ops; a same conclusion can be found in this study.The moderate attitudes toward internal auditing (mean score of 3.00 for audit frequency, 2.73 for detecting financial problems) and budgeting (3.22 for regular review, 2.95 for resource distribution) concurred with the moderate rankings recorded in the study by Rana et al. (2014). Koirala (2025) stated that financial management can be effectively supported only through budgeting as well as auditing, thereby facilitating risk identification.

Moreover, this result has presented some connection between the dependent variable of the study (cooperative performance) and control variables in reporting results for both reporting information about Sales ($r = 0.559$) and Budgeting ($r = 0.550$). This resonates with conclusions of Acharya (2022) and Khatri (2023) for the benefits of MCS frameworks in terms of transparency, trust and better financial performance. The 70% explanation of the variance in cooperative performance in this study is also consistent with findings of Bhattarai (2021) and Magar et al. (2021) who investigated the role of MCS in enhancing decision-making and overall firm performance. In the same manner, this present study also supports the requirement of a stringent commissioning technique (mean 2.77) and clear pronunciation for handling report of SLCF as demonstrated in Gurung (2024).

Conclusion

These suggest that cooperatives need to enhance the quality of internal auditing in terms of their ability to handle financial risks. Systems monitoring in real time with data analysis and digitization of data are capable of identifying

early warning signs before they are translated into negative events, and even before they become remote from the initiation point (in latency) or in the end result. However, the rigidity of current systems has been a barrier in many cases. To achieve this, cooperatives need to free themselves from traditional management systems that are sometimes too rigid and do not process sudden or unforeseen changes taking place in their economic environment or in their activities. An ongoing, relentless focus on improvement (shinsakiteki kaizen) through regular performance reviews and ad hoc system reviews was the secret to maintaining agility.

Openness of transparency and accountability is also a prerequisite for co-governance. This type of communication to the above mentioned members / stakeholders is crucial to build a general confidence and should now be speeded out in an adequate way. We tell members to read, interpret and apply reports we date active reading of data herein." There are way far observer strangers who can and do not (want to!) form solutions with them. Accountability (and members' participation, satisfaction and trust in cooperative leadership) is likely to be strengthened at these levels of participatory involvement. Sound fiscal operations, democratic processes, and open modes of communication harness the power of technology for organizations that make a difference in our members lives and foster an enduring connection with them.

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